

# **Fiscal Services Division**

## **Legislative Services Agency**

### **Fiscal Note**

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SF 590 - State Earned Income Tax Credit Refundable (LSB 2247 SV)

Analyst: Jeff Robinson (Phone: (515) 281-4614) ([Jeff.Robinson@legis.state.ia.us](mailto:Jeff.Robinson@legis.state.ia.us))

Fiscal Note Version - New

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#### **Description**

Senate File 590 raises the Iowa Earned Income Tax Credit percentage from 6.5% of the federal credit to 7.0% and also makes the credit refundable. The changes are effective January 1, 2007.

#### **Background**

The current Iowa Earned Income Tax Credit is equal to 6.5% of the taxpayer's federal credit amount. The current credit is not refundable, so the benefit to the taxpayer is limited to their Iowa tax liability.

Making the Earned Income Tax Credit refundable will move the calculation of the credit from its current location on the Iowa tax return from before calculation of the local option income surtax for schools to after the surtax calculation. The surtax currently yields an amount equal to 3.0% of net Iowa income tax revenue, so making the Earned Income Tax Credit refundable will increase local option income surtax revenue approximately \$242,000 per year and reduce net General Fund revenue by that amount. This impact is in addition to the tax model projections calculated by the Department of Revenue.

#### **Assumptions**

The Department of Revenue micro-simulation model was used to estimate the impact of SF 590. The model is based on a near-universe of Iowa tax returns for tax year 2004, including relevant information from each taxpayer's federal income tax return. The model is adjusted for assumed future trends in population and income growth.

#### **Fiscal Impact**

Converting Iowa's current Earned Income Tax Credit to a refundable credit is projected to reduce net General Fund income by the following amounts:

FY 2008 - \$10.0 million

FY 2009 - \$ 9.9 million

FY 2010 - \$ 9.6 million

FY 2011 - \$ 9.2 million

The Department of Revenue model results were adjusted for the local-option-income-surtax-for-schools issue noted in the background section above.

Making the tax credit refundable may cause additional lower-income Iowans to file tax returns than would otherwise be the case. Should this occur, the net General Fund impact could be marginally higher than projected.

**Source**

Department of Revenue

/s/ Holly M. Lyons

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

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